

Message Text

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ORIGIN EB-11

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FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN NIACT IMMEDIATE

C O N F I D E N T I A L STATE 016373

E.O. 11652: GDS

TAGS: IBRD, IR

SUBJ: IBRD LENDING TO TEHRAN

REF: TEHRAN 0067

FOR AMBASSADOR

1. IN LIGHT OF THE SIGNIFICANT EVOLUTION OF IRAN'S
FOREIGN EXCHANGE POSITION AND GOVERNMENT REVENUES, AND
IRAN'S HIGH STANDING ON INTERNATIONAL PRIVATE CAPITAL
MARKETS, THE USG IS CONCERNED ABOUT THE EFFECTS ON PUBLIC
AND CONGRESSIONAL OPINION OF CONTINUED LARGE-SCALE WORLD
BANK LENDING TO IRAN. ONE OF THE PRINCIPAL FACTORS
CONTRIBUTING TO THE HOUSE DEFEAT OF THE FOURTH REPLENISH-
MENT OF IDA WAS THE TOTAL OIL SITUATION. ON JANUARY 29,
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THE IBRD EXECUTIVE DIRECTORS ARE SCHEDULED TO CON-
SIDER A DOLS. 75 MILLION LOAN TOTHE INDUSTRIAL AND

MINING DEVELOPMENT BANK OF IRAN. NEGOTIATIONS ARE PLANNED FOR TWO ADDITIONAL PROJECTS TOTALLING DOLS. 120 MILLION, AND OTHER IBRD PROJECTS IN VARIOUS STAGES OF PLANNING FOR IRAN AMOUNT TO AT LEAST DOLS. 200 MILLION. THE NEED FOR WHAT IS ESSENTIALLY CONCESSIONAL LENDING--THE IMDBI LOAN, FOR EXAMPLE, CARRIED 7 1/4 PERCENT INTEREST AND 17 YEAR REPAYMENT WITH FIVE YEARS OF GRACE--MAY WELL BE QUESTIONED. IT IS, INDEED, IN IRAN'S OWN INTEREST TO AVOID ADDITIONAL CAPITAL INFLOWS AT THIS TIME AS THEY ARE AWARE (SEE REFTEL).

2. IBRD VICE PRESIDENT BENJENK IS SCHEDULED TO VISIT TEHRAN SOON TO DISCUSS FINANCIAL MATTERS. AMONG THE TOPICS DISCUSSED WILL PROBABLY BE THE QUESTION OF IRAN OFFSETTING FUTURE WORLD BANK LOANS THROUGH PURCHASES OF BANK BONDS IN AMOUNTS AND AT TERMS WHICH PREVENT IRAN FROM CONTINUING TO BE A NET IMPORTER OF CAPITAL AT THE BANK'S EXPENSE. A PRECEDENT FOR THIS TYPE OF OFFSET AGREEMENT HAS BEEN ESTABLISHED RECENTLY IN AN ARRANGEMENT FOR VENEZUELA TO COVER 100 PERCENT OF AN IBRD LOAN, TO BE SURE, FOR A MUCH SMALLER AMOUNT. WE WONDER, HOWEVER, WHETHER A MERE OFFSETTING OF LOANS OF THIS MAGNITUDE WOULD BE SUFFICIENT TO MEET THIS PROBLEM. IF IRAN ELECTS TO ESCHEW IBRD CAPITAL ASSISTANCE, THE POSSIBILITY WOULD REMAIN THAT IRAN'S EVENTUAL NEEDS FOR TECHNICAL ASSISTANCE IN CONTEMPLATED PROJECTS COULD BE MET BY THE BANK ON A REIMBURSABLE BASIS.

3. DRAWING ON THE ABOVE AS APPROPRIATE, YOU SHOULD MAKE INFORMAL SOUNDINGS WITH THE GOI AIMED AT STIMULATING THEIR OWN THINKING ON THIS SUBJECT AND TO EXPLORE THE GOI REACTION TO THEIR CHANGED SITUATION IN THE WORLD BANK.

4. FYI. SHOULD THE BANK AND THE GOI FAIL TO REACH AN UNDERSTANDING WHICH TAKES ACCOUNT OF IRAN'S CHANGED FINANCIAL PROSPECTS, WE WOULD FEEL OBLIGED TO RAISE THE MATTER WHEN THE LOAN IS CONSIDERED. WE THEREFORE NEED TO KNOW YOUR THOUGHTS BY OPENING OF BUSINESS JANUARY 28 IF POSSIBLE AS TO WHAT THE GOI'S ATTITUDE MAY BE, PARTICULARLY IF WE WERE TO TAKE THE POSITION
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THAT WE COULD NOT VOTE AFFIRMATIVELY IN THE ABSENCE OF AN IBRD-GOI AGREEMENT. END FYI. KISSINGER

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